



Arnold Schwarzenegger  
Governor

May 3, 2010  
22M:385:DEJ: 9067:9068

Mr. Leland Collins, Executive Director  
San Luis Obispo Department of Social Services  
3433 So. Higuera  
P.O. Box 8119  
San Luis Obispo, CA 93403-8119

Dear Mr. Collins:

WORKFORCE INVESTMENT ACT  
FISCAL AND PROCUREMENT REVIEW  
FINAL MONITORING REPORT  
PROGRAM YEAR 2008-09

This is to inform you of the results of our review for Program Year (PY) 2008-09 of the San Luis Obispo Department of Social Services' (DSS) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Mr. David Jansson from April 20, 2009 through April 24, 2009. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, cost/resource sharing, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients, and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, contract terms and agreements, and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by DSS with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2008-09.

We collected the information for this report through interviews with representatives of DSS, a review of applicable policies and procedures, and a review of documentation retained by DSS for a sample of expenditures and procurements for PY 2008-09.

We received your response to our draft report on December 30, 2009, and reviewed your comments and documentation before finalizing this report. Because your response did not adequately address finding one cited in the draft report, we consider this finding unresolved. We requested that DSS provide the Compliance Review Office with additional information and a corrective action plan to resolve the issue that led to the finding. Therefore, this finding remains open and has been assigned Corrective Action Tracking System (CATS) number 90241.

### BACKGROUND

The DSS was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2008-09, DSS was allocated: \$342,274 to serve 25 adult participants; \$675,924 to serve 100 youth participants; and \$484,939 to serve 30 dislocated worker participants.

For the quarter ending December 31, 2008, DSS reported the following expenditures and enrollments for its WIA programs: \$94,617 to serve 20 adult participants; \$115,879 to serve 44 youth participants; and \$131,499 to serve 38 dislocated worker participants.

### FISCAL REVIEW RESULTS

While we concluded that, overall, DSS is meeting applicable WIA requirements concerning financial management, we noted an instance of noncompliance in the area of reporting One-Stop program and administrative costs. The finding that we identified in this area, our recommendation, and DSS' proposed resolution of the finding is specified below.

### FINDING 1

**Requirement:** OMB Circular A-87, Attachment B(C)(3) states, in part, that a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

29 CFR Section 97.20(b)(1) states, in part, that financial reporting systems shall provide for accurate, current and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant or subgrant.

20 CFR 667.220(a) states, in part, that the costs of administration are that allocable portion of necessary and reasonable allowable costs of State and local workforce investment boards, direct recipients, including local grant

recipients, local fiscal agents and one-stop operators that are associated with performing specific functions.

20 CFR Section 667.220(b)(1)(i-ix) states, in part, that the costs of administration are the costs associated with performing the following: accounting, budgeting, financial and cash management functions, procurement, purchasing, property management, personnel management, payroll, and audit functions.

20 CFR 667.220(b)(3) states, in part, that costs of goods and services required for administrative functions of the program, including goods and services such as rental or purchase of equipment, utilities, office supplies, postage, and rental and maintenance of office space are specifically administrative costs.

**Observation:**

We observed that DSS did not require its One-Stop Operator, Private Industry Council (PIC), to report administrative costs separately from program costs. Based on the contract between DSS and PIC, wherein PIC is designated as the San Luis Obispo County One-Stop Operator, PIC is required to report any administrative costs to the LWIA. The PIC performs numerous administrative activities including: accounting, budgeting, payroll and personnel management. Therefore, PIC is engaged in WIA defined administrative activities which are required to be reported as administrative costs by a One-Stop Operator.

**Recommendation:**

We recommended that DSS provide Compliance Review Office (CRO) with a corrective action plan (CAP), including a timeline, to ensure that the One-Stop Operator, PIC, reports administration costs for the cost associated with the performance of WIA administrative functions. Additionally, we recommended that DSS review its One-Stop Operator's costs reported from July 1, 2008 to June 30, 2009 to separate out and report administrative and program costs, and provide CRO with documentation of its actions. Finally, we recommended that DSS provide CRO a CAP ensuring how, in the future, their One-Stop Operator reports their administrative costs separately from program costs.

**DSS Response:**

The DSS provided the following responses:

- DSS stated the PIC is no longer the One-Stop Operator. The PIC officially dissolved its business operations effective June 30, 2009.
- DSS provided documentation that demonstrated they had reversed program costs associated with the PIC's Director of Finance salary for Program Year (PY) 2008-09 and charged those costs against administrative accounts.
- DSS stated that Shoreline Workforce Development Services, a division of Goodwill Industries, has become the One-Stop Operator, effective July 1, 2009. DSS stated they have established a cost reporting process that ensured the Shoreline's administrative costs were captured and reported to the County from the inception of its contract. The DSS provided documentation (an invoice from Shoreline) demonstrating compliance with reporting administrative costs of the One-Stop separately from program costs.

**State Conclusion:**

Based on DSS' response, we cannot resolve this issue at this time. Although DSS provided documentation demonstrating that it reversed the Director of Finance's salary from program costs to administrative costs, this is only part of the total costs of administration as defined in federal regulations. As noted in the requirements section above, specific costs, such as rent, utilities, oversight and monitoring, used to support administrative functions must also be reported as administrative costs. The DSS provided no documentation demonstrating that such costs were reviewed and charged appropriately to the administrative category or that no such costs were incurred.

Therefore, we recommend that DSS provide CRO with documentation that all administrative costs of its former One-Stop Operator have been identified and actions taken to reconcile the administrative costs charged to the WIA grants from July 1, 2008 to June 30, 2009. Until DSS provides the documentation of the recommended actions, this finding remains open and is assigned CATS number 90241.

In addition to the finding above, we identified a condition that may become a compliance issue if not addressed. Specifically, we identified a condition noted in the Draft report that DSS did not have completed and approved written policies and procedures for Adult, Dislocated Worker and Youth program eligibility. Additionally, since DSS did not have those policies and procedures in place, DSS did not communicate those guidelines within the local area. We suggested that DSS develop, approve, communicate and implement policies and procedures for eligibility for those programs.

In its response to the Draft report, DSS included a copy of their WIB approved eligibility policy and procedures dated December 9, 2009. Additionally, DSS provided a copy of their WIA Title I Eligibility Documentation and Verification directive communicated to their service providers (on or about December 9, 2009). Therefore, DSS adequately addressed our concern.

#### PROCUREMENT REVIEW RESULTS

We conclude that, overall, DSS is meeting applicable WIA requirements concerning procurement.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Office your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than June 1, 2010. Please submit your response to the following address:

Compliance Monitoring Section  
Compliance Review Office  
722 Capitol Mall, MIC 22M  
P.O. Box 826880  
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is DSS' responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain DSS' responsibility.

Mr. Leland Collins

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May 3, 2010

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Ms. Mechele Hayes at (916) 654-1292.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jessie Mar".

JESSIE MAR, Chief  
Compliance Monitoring Section  
Compliance Review Office

cc: Daniel Patterson, MIC 45  
Jose Luis Marquez, MIC 50  
Greg Gibson, MIC 50